



Jane Dee Hull, Governor

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Arizona Department of Revenue Mission Statement

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Reengineering The Department of Revenue

A little over a year ago the Department of Revenue began the BRITS (Business Reengineering / Integrated Tax System). It is a project to modernize all our tax systems and operations using database technology. The focus of the project is to significantly improve taxpayer services while improving our efficiency and effectiveness. Our main tax systems were designed and developed in the early 1980s. At that time, it was state of the art technology. Over the years, however, these systems have become obsolete and the explosion of technology has left us way behind. Our plan is to use the BRITS project to bring the department into the 21st century and to enable us to provide the kinds of service our taxpayers have a right to expect.

In the last year, the department contracted with the Gartner Group for phase one of the BRITS project. They completed that phase in December and we are now moving into phase two. Phase one involved doing a needs assessment, a review of Best Practices in other states, development of a business vision and concept of operations, an assessment of our IT staff and employees readiness for change, and a draft RFP (Request for Proposal) for a business partner to

help us in developing the new integrated tax system.

Phase two involves soliciting a business partner who will work with us to develop and install the new systems and technology. It also employs a new tactic for Arizona, gain sharing. In a gain sharing proposal, a vendor proposes technology and system changes which will be funded from increased revenues developed as a result of the new technology and system. A number of states have used this approach in recent years with great success. Among them are California, Kansas and Virginia. While the project is funded by gain sharing, increased revenues is not the focus for the project, improved customer service is. Among the features of the new system will be a vastly expanded electronic business segment which will compliment our goal that there will be no wrong door for the public to interface with the department. By making the department more efficient and effective in the processing of data, the system improvements will also result in increased revenues that will fund the project.

One other feature of gainsharing that is different from normal procurement, is the relationship between the business partner and the department. In a normal purchase, the department would have to

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*****REMINDER*****

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your
March 2001 TPT return no later than April
25, 2001 or deliver to DOR no later than
April 27, 2001.

November Summary of General Fund Revenues

	November 2000	Fiscal Year Total
Individual Income Tax		
Net Collections	\$146,306,739	\$824,747,827
Percent Change *	4.6%	10.8%
Corporate Income Tax		
Net Collections	\$(36,893,947)	\$171,531,817
Percent Change *	N/A	13.4%
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$241,226,450	\$1,226,339,865
Percent Change *	5.3%	8.5%
Total Big Three Tax Types		
Net Collections	\$350,639,242	\$2,222,619,509
Percent Change *	5.0%	9.7%

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax

Individual Income Tax Receipts

	November 00	November 99	Change
Gross Collections	\$6,745,307	\$7,617,344	(11.4%)
Withholding	196,501,572	189,289,342	3.8%
Refunds	(23,902,420)	(25,563,060)	(6.5%)
Urban Rev Sharing	(33,037,720)	(31,475,916)	5.0%
Net Collections	\$146,306,739	\$139,867,710	4.6%
Fiscal Year Total			
	(00/01)	(99/00) %	Change
Gross Collections	\$133,145,563	\$120,926,320	10.1%
Withholding	941,305,437	864,917,937	8.8%
Refunds	(84,514,574)	(83,930,470)	0.7%
Urban Rev Sharing	(165,188,600)	(157,379,579)	5.0%
Net Collections	\$824,747,827	\$744,534,208	10.8%

Just a reminder...

renew your subscription to the Arizona
TaxNews at least 30 days before expiration to
avoid missing issues.

TAX CALENDAR

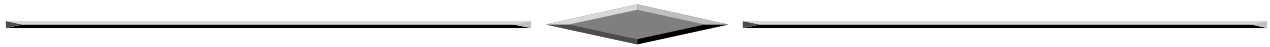
APRIL 2001

Due Date		For Period Ending
16	Income Tax Returns:	12/31/00
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
16	Form 120: Corporation with Automatic Extension	6/30/00
16	Form 120S: S Corporation	1/31/01
16	Form 99: Exempt Organization Annual Information Return	11/30/00
16	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	12/31/01
	Second Installment	10/31/01
	Third Installment	7/31/01
	Fourth Installment	4/30/01
20	Form TPT-1: Transaction Privilege Tax:	
	March Monthly Filers and Quarterly Filers	3/31/01
20	Bingo: Financial Reports	3/31/01
20	Luxury Tax: Various Forms	3/31/01
25	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	March Monthly Filers,	3/31/01
30	1st Quarter Withholding Forms	3/31/01
30	Unclaimed Property Reports: Life Insurance Companies - (Report accounts dormant for 5 years as of Dec. 31 of the report year)	

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from Tony Manzo at (602) 542-3062 or toll free 1 (877) 863-0655.



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spell out in detail what it wanted and then hold the vendor to delivering that exact product. In gain sharing the department spells out what capabilities it wants to have and allows the vendors to propose how to get there. Then, since neither the department nor the vendor get paid if the project fails, both to make it a success.

The department plans on releasing the RFP soon. The RFP process will take six to nine months to complete and we hope to award a contract for our new business partner before the end of this year. The RFP process will take this long due to the prospective vendors need to learn the department's operations so they can develop their proposals for improved service.

Meanwhile, the department has made some moves to get ready for the BRITS project. It created the Change Management Office, led by two former DOR Assistant Directors who will manage the changes needed in the department and the RFP. They are Lynette States, former AD for DOR's Administrative Services Division and Richard Milanese, former AD for the Compliance Division. They will be adding to their staff as the project develops. At the same time, the department is looking at its organization structure to see what changes are needed to facilitate the project and move the department to a more customer centric organization. It hopes to complete that analysis in time to implement the new organization this summer.

ARIZONA GENERAL TAX PROCEDURE

GTP 01-01

Procedure for Requesting Relief from Alternative Fuel Vehicle Registration, Ownership and Fuel Usage Requirements

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) §§ 43-1086 and 43-1174 provide tax credits to individuals and corporations for the purchase, lease or conversion costs of alternative fuel vehicles.

Laws 2000, 7th S.S., ch. 1, sections 16 and 19 amended A.R.S. §§ 43-1086(E) and 43-1174(E) to require that certain conditions be met to qualify for a tax credit. These conditions include:

- The taxpayer shall not transfer the vehicle to any person other than a member of the taxpayer's immediate family for 36 months after the initial registration of the vehicle. This requirement does not apply if the vehicle is demolished or the taxpayer dies before the expiration of the thirty-six month period. A.R.S. §§ 43-1086(E)(2) and 43-1174(E)(2).
- The vehicle shall be registered in this state for at least 36 months. A.R.S. §§ 43-1086(E)(3) and 43-1174(E)(3).
- If the vehicle is a bi-fuel vehicle that operates on liquefied petroleum gas (LPG), the taxpayer shall provide evidence satisfactory to the department of revenue that at least 50% of the fuel the vehicle uses is alternative fuel for 36 months. A.R.S. §§ 43-1086(E)(4) and 43-1174(E)(4).
- If the vehicle is a bi-fuel vehicle that operates on compressed natural gas (CNG), the taxpayer shall provide evidence satisfactory to the department of revenue that the vehicle uses the following percentages of alternative fuel for 36 months:
 - (a) At least 25% of the fuel the vehicle uses for the initial taxable year.
 - (b) At least 33 1/3% of the fuel the vehicle uses in the second year.

(c) At least 50% of the fuel the vehicle uses in the third year. A.R.S. §§ 43-1086(E)(5) and 43-1174(E)(5).

- The vehicle complies with emissions inspection requirements for alternative fuel vehicles prescribed in A.R.S., Title 49, Chapter 3, Article 5. A.R.S. §§ 43-1086(E)(6) and 43-1174(E)(6).

A.R.S. §§ 43-1086(F) and 43-1174(F) each provides:

The director may relieve a taxpayer of requirements prescribed under subsection E, paragraphs 2 through 6 of this section if both of the following apply:

1. The taxpayer is unable to meet the requirement due to circumstances that would make the requirement unfair or inequitable to the particular taxpayer.

2. The taxpayer acted in good faith and the taxpayer intended to primarily propel the vehicle with alternative fuel.

A.R.S. § 42-1251 provides for appeal to the department for a hearing, correction or redetermination of a proposed assessment.

A.R.S. § 42-1253 provides for appeal to the state board of tax appeals of a final decision of the department.

Executive Order 2000-21 creates the Office of Alternative Fuel Recovery and directs it to answer questions about the alternative fuel incentive program and the requirements to qualify for a tax credit and to be the central source for the public to gain access to information or forms necessary to file for a tax credit.

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DISCUSSION:

Arizona law requires taxpayers who received tax credits for the purchase, lease or conversion of alternative fuel vehicles to meet certain registration, ownership and fuel usage requirements. However, in some cases, a taxpayer may be relieved from these requirements. In all cases a taxpayer will be required to declare under penalties of perjury that the taxpayer intended to primarily propel the vehicle with alternative fuel and acted in good faith in purchasing the vehicle. All facts asserted or declared by a taxpayer are subject to review and audit, and any determination that a taxpayer is entitled to relief may be revoked if the facts presented in the claim are not correct. Relief granted from the ownership and registration requirements will generally apply to all subsequent tax years unless expressly limited in the notification. Relief granted from the fuel usage requirement will generally apply only to a single tax year and relief for subsequent years will have to be applied for and justified.

Ownership

A taxpayer may qualify for relief from the ownership requirement if one of the following conditions is met:

- The ownership of the vehicle was transferred before December 14, 2000, the effective date of Laws 2000, 7th S.S., ch. 1.
- Due to unanticipated changes in the taxpayer's financial condition, continued ownership of the alternative fuel vehicle is a hardship.
- The taxpayer purchased the vehicle with the intent to sell or lease it as allowed by prior law, and the enactment of Laws 2000, 7th S.S., ch. 1, prevented the completion of the intended transactions and rendered continued ownership of the vehicle a financial hardship.
- Any other circumstances that would make the requirement unfair or inequitable to the particular taxpayer.

For purposes of the ownership requirement, "immediate family" is defined as a spouse, parent, child, brother, sister, in-law, grandparent or grandchild.

Registration

The taxpayer may qualify for relief from the registration requirement if one of the following conditions is met:

- The taxpayer relocates to another state and removes the vehicle to the other state.
- If applicable, the conditions listed for relief from the ownership requirement.
- Any other circumstances that would make the requirement unfair or inequitable to the particular taxpayer.

Fuel Usage

The taxpayer may qualify for relief from the fuel usage requirement if one of the following conditions is met:

- The taxpayer shows that the requirement cannot be met because records of fuel usage were not kept prior to December 14, 2000, the effective date of Laws 2000, 7th S.S., ch. 1.
- The taxpayer shows that the requirement cannot be met because of out-of-state travel.
- The taxpayer shows that refueling options are unavailable and the taxpayer was unaware of this unavailability at the time the vehicle was purchased.
- A combination of the above conditions.
- Any other circumstances that would make the requirement unfair or inequitable to the particular taxpayer.

PROCEDURE:

Pursuant to Executive Order 2000-21 the Office of Alternative Fuel Recovery (OAFR) is acting for the state regarding alternative fuel issues. The Director of the Department delegates to OAFR the authority to review equitable review requests and delegates to the Director of OAFR and the Assistant Director of OAFR the authority to act for him in granting and denying relief as provided below.

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I. Application for Relief

A taxpayer's request for relief must be in writing and must provide sufficient information to establish that the conditions prescribed for the relief requested have been met. Form AFV-RR, "Request for Relief from Alternative Fuel Vehicle Requirements", is provided for this purpose. To apply for relief, the taxpayer should submit a completed form, together with the necessary information as follows:

A taxpayer may request an advance determination of eligibility for relief by submitting the form to OAFR at:

Alternative Fuel Relief
P.O. Box 29206
Phoenix, Arizona 85038-9206

In its discretion, OAFR may waive the requirement that Form AFV-RR be filed and act on a request for relief submitted in some other written form. A copy of the form, along with any response received from OAFR, should be attached to the 2000 Arizona income tax return. OAFR will provide a copy of all requests for relief and responses to the department.

A taxpayer may also request relief by attaching Form AFV-RR to the tax return when it is filed with the department. The department will transfer the request and any supporting documentation to OAFR for review and determination.

Assistance in completing the form may be obtained by contacting OAFR at (602) 364-3401 or (866) 259-3961.

II. Determination by OAFR

OAFR will review the taxpayer's form and determine whether the taxpayer qualifies for relief. The taxpayer may be required to furnish additional information. It may be determined that the taxpayer qualifies for full relief, partial relief, or that the taxpayer does not qualify for relief. Either the Director or the Assistant Director of OAFR shall make the determination.

OAFR will notify the taxpayer requesting relief in writing with respect to the determination.

III. Review of Unfavorable Determination

A taxpayer who disagrees with the determination may petition the Department of Revenue's Hearing Office for a review under A.R.S. § 42-1251. For individual taxpayers, the petition must

be in writing and must be filed within 90 days of the mailing of the determination by OAFR. For all other taxpayers, the petition must be in writing and must be filed within 45 days of receipt of the determination from OAFR. The hearing office may affirm or reverse the determination in whole or in part, or may remand the request for relief back to OAFR with additional instructions. The hearing office will notify the taxpayer requesting relief in writing with respect to the determination on review.

A party who disagrees with a determination of the hearing office may appeal the determination to the Director of the Department of Revenue. The director may also independently determine that a hearing office decision requires review. If no appeal is made to the director within 30 days after the hearing office decision is received, and the director does not independently review the decision, the hearing office decision is the final order of the department. If the director reviews the decision, the director's decision is the final order of the department.

A taxpayer may appeal a final order of the department (whether a hearing office decision or a director's decision) to the State Board of Tax Appeals pursuant to A.R.S. § 42-1253.

Mark W. Killian, Director
Signed 02/07/2001

Explanatory Notice for Tax Rulings issued by the Arizona Department of Revenue

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law that are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement that provides interpretation, detail, or supplementary information concerning application of the law. Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See GTP 96-1 for more detailed information regarding

documents issued by the
Department of Revenue.

All rulings and procedures issued by the Arizona
Department of Revenue are available in full text on the
Internet at: www.revenue.state.az.us

Non-Program City Tax Code Changes

Bisbee Change in City Tax Code Effective March 1, 2001

The Mayor and City Council of the City of Bisbee passed ordinance O-00-27. Ordinance O-00-27 increases the Bisbee City Privilege Tax from 2% to 2.5%. The tax rate increase affects the following classifications:

- ◆ Advertising;
- ◆ Amusements
- ◆ Construction contracting
- ◆ Feed at wholesale
- ◆ Job printing
- ◆ Manufactured buildings
- ◆ Timbering & other extraction
- ◆ Publishing
- ◆ Hotels
- ◆ Rental of real property
- ◆ Restaurant/Bar
- ◆ Retail sales
- ◆ Telecommunications
- ◆ Transporting for hire
- ◆ Utilities

The tax rate for Additional Tax on Transient Lodging remains at 2.5%. The increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance.

Marana Change in City Tax Code Effective May 1, 2000

The Mayor and Town council of Marana have passed Ordinance No. 2001.01. Ordinance 2001.01 increases the privilege tax for the **Construction Contracting classification from 3% to 4%**. The privilege tax on Construction Contracting should be reported using CODE MA8.

This increase does not affect those construction contracts entered into prior to May 1, 2001. **Pre-existing construction contracts** should be reported using **CODE MA9** at a tax rate of **3%**.

Willcox Change in City Tax Code Effective January 1, 2001

The Mayor and Council for the City of Willcox passed Ordinance NS231. Ordinance NS231 adopts all aspects of Local Option B affecting Sec. 280 of the City Privilege Tax Code. Sec. 280 excludes transactions with governmental agencies from city privilege tax. Gross income from transactions that would normally be taxable, if conducted with or for

other customers are exempt from city privilege tax if within the customer is the (1) Federal government, (2) the State of Arizona, (3) Any County of this State, its departments and agencies including, but not limited to, public school districts, (4) Any incorporated city or town in this State and (5) the City of Willcox.

City Tax Code Changes

Chino Valley Change in City Tax Code Effective April 1, 2001

The Mayor and Common Council of the Town of Chino Valley passed Ordinance No. 449.

Ordinance No. 449 affects the Town Privilege Tax Code Sec. 8A-445 - Rental, leasing, and licensing for use of real property.

A person who has less than three (3) apartments, houses, trailer spaces, or other lodging spaces rented, leased or licensed or available for rent, lease, or license within the State and no units of commercial property for rent, lease, or license within the State, is not deemed to be in the rental

business, and is therefore exempt from the tax imposed by Sec. 8A-445.

However, a person who has one (1) or more units of commercial property is subject to the tax imposed by Sec. 8A-445 on rental, lease and license income from all lodging spaces and commercial units of real estate even though said person may have fewer than three (3) lodging spaces.

The tax rate for the Rental of Real Property remains at 2% to be reported using CODE CV.

Clifton Change in City Tax Code Effective Immediately

The Mayor and Common Council of the Town of Clifton passed resolution 2001-01 setting a procedure for taxpayers renting, leasing or licensing real property located within the Town of Clifton to apply for an abatement or adjustment to taxes owed to the Town. This resolution only applies to those rental properties that are used for residential use; it does not apply to commercial properties.

Those owners of real property subject to the tax, who have not been aware of the tax, may apply to the Town for the abatement or adjustment of the tax owed under the following procedures:

1. The owner(s) shall file a written application for abatement or adjustment with the Town Clerk.
2. The application shall be signed by the owner (s) and notarized.
3. The application shall describe the reasons

why the owner(s) believes that the amount of the tax should be abated or adjusted.

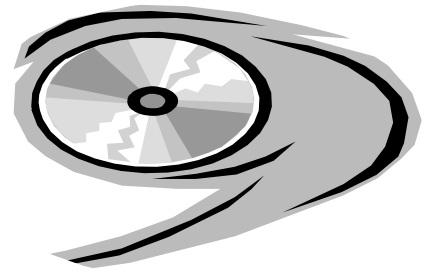
4. A statement shall accompany the application from the Arizona Department of Revenue listing the amount of tax, penalty or interest owed, or other proof of such amounts satisfactory to the Town.

5. The deadline for all applications shall be June 29, 2001.

6. The Town Council shall review all such applications for abatement or adjustment and if granted, shall be effective through December 31, 1999.

The owners of real property rented to persons for residential purposes, must also obtain a business license from the Town, and apply to the Arizona Department of Revenue for a transaction privilege tax license.

**State of Arizona
Department of Revenue
Forms and Tax Information
CD-ROM 2000 Edition**



Includes:

- Arizona tax forms and instructions from 1995 – 2000
- Department of Revenue Tax Rulings
- Department of Revenue Tax Procedures
- Department of Revenue Private Taxpayer Rulings
- Arizona Department of Revenue Annual Report 2000
- Arizona E-File Manual

Also Includes:

- Internal Revenue Service Forms & Instructions for 2000

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